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PAPER CURRENCY OF ENGLAND

Dispassionately Considered,

WITH

SUGGESTIONS TOWARDS A PRACTICAL SOLUTION OF THE DIFFICULTY.

By JOHN HASLAM, LATE "TURGOT."

LONDON:
EFFINGHAM WILSON, ROYAL EXCHANGE.
DUBLIN: M'GLASHEN AND GILL, 50, UPPER SACKVILLE-STREET.

1856.

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PREFACE.

The following pamphlet was designed for insertion in a periodical devoted to industrial and commercial purposes, which was to have appeared on the 1st of January. As owing to unavoidable circumstances the publication of this journal has been postponed, the writer has thought it better to present his views to the public in their original form, than to incur the delay that would be necessary if he were to recast the essay and expand its scope so as to embrace the consideration of the Scotch and Irish issues. He trusts that this explanation will serve as an apology for the extreme compression which he has been obliged to exercise in treating of several departments of the subject, as well as for his having neglected to fortify his reasoning by citations from other writers, in many instances in which he might have done so with unquestionable advantage to the reader.

19, Cullenswood-Avenue, Ranelagh,
Dublin, Jan. 1856.

THE

PAPER CURRENCY OF ENGLAND

DISPASSIONATELY CONSIDERED,

&c.

Amongst the many debatable clauses contained in the Bank Charter Act of 1844, there is one at least the practical expediency of which will scarcely be called in question. It is that which provides for the redemption of the privileges enjoyed by the Bank of England, "at any time upon twelve months' notice, to be given after the first day of August, 1855." A similar provision had been inserted in the Act of 1833, so that the decennial expiration and revision of the Bank of England Charter, may be regarded as a positive feature in the banking system of Great Britain. The advantages resulting from this periodical revision of our currency code with respect both to the public generally and to bankers in particular are very considerable. The investigation of the laws of monetary phenomena forms undoubtedly the most abstruse and intricate department in the whole range of political economy. In no other section of the science are the ultimate conclusions more liable to be vitiated by any error in the leading principles, or any false step in the process of deduction; and in no other is it more difficult either to trace an error through all its mazes to its real origin, or to present its refutation in a form adapted to the popular

intelligence. It not unfrequently happens, therefore, that some plausible fallacy becomes generally accredited, and is adopted by our statesmen as a basis for legislation, either before the materials have been collected for its successful exposure, or before the knowledge of such exposure has had time to circulate through all the channels of the public mind. In such cases the experience of a few years' operation of the measure, suffices to explode the fallacy, and when, at the succeeding expiration of the Bank of England Charter, the subject is presented to parliament for reconsideration, our legislators are enabled to disentangle themselves from the errors which had previously misled them, and to bring their enactments into greater conformity with the principles that should regulate a well conducted currency. And were it not for this arrangement, there is great reason to apprehend that our banking laws would present as many obstacles to their amelioration, as now unfortunately oppose themselves to the reform of so many other departments of our legislative system.

There is a second beneficial purpose no less eminently subserved by this arrangememt. At present, the privilege of issuing paper money, unrepresented by bullion, is a highly profitable and closely protected bank monopoly. Now the undisturbed enjoyment of a monopoly, as is well known, has sometimes the effect of impressing its possessors with a conviction, that they hold their privilege by a sort of inalienable right, irrespective of the public welfare. And were it not for the provision which subjects our whole monetary system to a periodical investigation and revision, the existing banks of issue might naturally share in this feeling, and come to regard any interference with their privilege, as an unwarrantable exercise of state prerogative. Under the actual circumstances of the case, however, they can advance no valid plea for the retention of the right of issue, any longer than may be deemed consistent with the interests of the community at large. For if the Bank of England, which has advanced eleven millions of its capital to the nation, for fiscal purposes, is liable to have the right of issue withdrawn upon the single condition of repayment of the debt, with all arrears of interest, how much more is it incumbent upon those banks which have rendered no such service to the State, to hold themselves prepared for a similar surrender. And if they have neglected to make any provision for such possible contingency, it has not been for want of warning, that they do not enjoy their monopoly by any indefeasible claim to its possession in perpetuity.

We trust that the approaching session of Parliament will furnish a striking exemplification of both these advantages. The Bank Charter Act of 1844, is precisely one of those measures which have been based upon a fallacious interpretation of the principles of monetary science. A few of the more far-sighted of our economists and practical statesmen, were fully cognizant of the fact at the time of its enactment ; but the principle on which it rested was extremely plausible, and a large majority of our public men assented to its adoption. That measure has now received its ten years' ordeal, and it is time that the judgment of the nation should be formally pronounced upon its merits. Nor can there be much difficulty in arriving at that decision. Few measures have ever been condemned by a more general verdict. It is true, that the Committee of the House of Commons on Commercial Distress in 1848, delivered a report in its favour, by a majority of two ; but, if so, that report was framed in deliberate opposition to the opinions of nearly

all the witnesses examined; while even of the remainder the evidence, though intended to be affirmative was inadequate and self contradictory. The Acts of 1845, for the regulation of the paper issues of Scotland and Ireland, were supplementary to that of 1844, and more or less participate in all its imperfections; but neither of them was put to the crucial test, during the commercial difficulties of 1846–7; and further than by occasional reference for the sake of comparison and illustration, we shall not treat of them here, but shall confine ourselves exclusively to the laws which affect the paper circulation of England and Wales. It has long been desirable that all the United Kingdom should be subject to a uniform currency code; nor do any insurmountable obstacles appear to oppose the establishment of one consistent system; but the subject is too extensive for discussion in our limits; and, in any case, the pre-eminent importance of the English circulation, would justify a separate and exclusive treatment.

The leading provisions of the Act of 1844, are too well known to require much elucidation. They may in general be arranged under two divisions; those relating to the limitation of the right of issue, and those assigning the conditions under which that right should alone be exercised. The former have at least the merit of being extremely simple. They merely continue the privilege to all the issuing banks in existence at the passing of the Act, viz. about 250, and prohibit the formation of any new banks of issue. The latter, so far as the country banks of issue are concerned, are equally simple. They do no more than assign a maximum limit to the issues of each—that maximum being equal to the average issues, during a certain period, previous to the enactment, and amounting to nearly £8,000,000 in the total. The conditions imposed on the issues of the Bank of England, are more complicated. Those issues are divided into two classes—the issues on gold and silver, compactly denominated *bullion* notes, and the issues on the Government debt, and other securities; which, as they are not represented by any gold or silver in the coffers of the Bank, may properly be designated *unrepresented* notes. Of the latter, the authorized issue is limited to a maximum of £14,000,000, viz. £11,015,100 on the Government debt, and £2,984,900 on other securities; the bullion notes, on the other hand, are not restricted within fixed limits, but are subject to the single condition that the Bank must issue notes in exchange for all the gold (and a certain proportion of silver, not to exceed one fourth of the gold) that may be presented for purchase at the rate of £3 17s. 9d. per ounce, and must render gold for all the notes that may be tendered for payment, at the rate of £3 17s. 10½d. per ounce. Thus the total amount of unrepresented notes, which the united banks of issue in England and Wales are authorised to circulate, is about £22,000,000;* in addition to which, the Bank of England is allowed to issue bullion notes for every £1 of treasure which it may possess.

Of the preceding provisions, it is that which prescribes £14,000,000 as the maximum of unrepresented notes, to be issued by the Bank of England, that has chiefly awakened discussion since the passing of the Act. The effect of this inflexible limitation during the commercial

* Perhaps we ought to mention that under one of the provisions of the Act of 1844, in case any of the banks of issue cease to issue their own notes after the passing of the Act, the Bank of England may be empowered to increase its securities and issue notes against them to an extent not exceeding two-thirds of the amount so discontinued; and that within the last few months the Bank of England has been thus authorized to increase its unrepresented issues by nearly £500,000. This increase, however, is only intended to prevent the unrepresented issues from falling much below the £22,000,000, and leads to no important results.

pressure of October, 1847, was so disastrous that nearly every authority of any eminence, except some few of the original promoters of the measure, has fully admitted that, but for the interposition of Government, and the temporary suspension of the bill, the Bank of England would have been compelled to stop payment; and the whole commercial system of the country would have been thrown into ruinous confusion. The general course of trade since that period has been, on the whole, so regular and prosperous, and our monetary system has been, therefore, subjected to so slight a strain from disturbing forces, that it is possible the impression produced on the public mind in 1847, may have somewhat subsided; should this be the case, we must only hope that the present heavy efflux of gold, required by our military operations abroad, will again arouse the slumbering consciousness of the nation, and that the occasion will not be lost of making some effort to remove a restriction which, in the case of every unwonted commercial crisis, is calculated to entail severe distress on every trading interest in the country.

It were much to be deplored, however, if the prominence of one defect in the present system, should exclusively engross the attention of the public, to the disregard of others which, although less disastrous in their consequences, are not in the least degree more reconcilable with correct principles of currency. Our monetary code, and especially the Act of 1844, should be considered as an undivided whole, every one of whose provisions should be brought into the closest possible conformity with true principles. And when so regarded, it is undeniable that it presents a most anomalous appearance, preserving no consistency in its parts; or rather composing an irreconcilable medley of incongruous elements, very few of which will admit of justification,

on the hypothesis that the remainder are correct. Thus while the Bank of England, which possesses a bona fide capital of about £18,000,000, is not allowed to issue unrepresented notes to within less than four millions of that capital, the 250 country banks are authorized to issue such notes, to the extent of their average issues in 1844, even though that average should exceed their capital in the proportion of three to one, and though, as the proceedings of the Bankruptcy Court have subsequently brought to light, there have been some cases at least in which it has actually far exceeded this proportion. On the other hand while the country banks are prohibited from issuing a single note in excess upon bullion, there is no limitation to the issue of such notes by the Bank of England, farther than the rule which requires the possession of actual treasure for every note so issued. Again, while the present issuing banks are allowed to retain the privilege without submitting to any test of qualification, no new bank that may hereafter be formed, however extensive its capital, and no existing non-issuing bank, however indisputable its security, must henceforth be endowed with a similar prerogative. And again, though the population of one district may rapidly increase in wealth and numbers, while those of another may undergo as great a diminution, yet the law makes no provision for such contingency, but prescribes the original issues of 1844 as the inflexible rule in both cases, precisely as if no alteration had occurred in the circumstances of either. Or, to regard the limitation under a national aspect, although the banks of issue, considered as a whole, are permitted to contract their unrepresented issues, to whatever extent may seem desirable, at any period in which commerce is stationary, or currency redundant; yet under the opposite circumstances, when

business is extremely active, and the demand for accommodation proportionally great, they are absolutely prohibited from increasing their issues to any extent beyond the limit to which they are restricted during ordinary periods. It were easy to multiply similar instances of inconsistency, but the preceding will suffice; and it will be more instructive if we cast a rapid glance at some of the principles which the Act of 1844 most flagrantly contravenes, and point out in what respects our monetary system may now be brought into greater consistency with all or any of those principles.

The most prominent, and perhaps the most important of these is the well established doctrine, that the issue of paper money should be a function of the State, and should be exercised exclusively with a view to public interests. This is a conclusion on the truth of which the common sense of practical men, and the philosophic insight of the best instructed authorities, are in perfect harmony. It has long been undisputed that coining is a legitimate or rather essential function of the State, and the reasons for comprehending the issue of notes under the same prerogatives are not less forcible. There is no evil that may befall the public from the circulation of base coin, that may not arise to an equal, if not aggravated, extent from the issue of counterfeit paper. Indeed the issue of paper money is liable to risks exclusively its own and which require far more ingeniously devised safeguards than the issue of coin. The person who receives gold or silver in payment may sometimes be under the necessity of employing a few easy tests in order to prove its genuineness, but if he apply these with the most ordinary circumspection, he can successfully protect himself from loss by imposition. Now, he who receives paper money, is often placed under circumstances precisely the reverse.

For, where the number of banks of issue is considerable, and the varieties of paper money in corresponding proportion, there are no valid tests within the reach of an average capacity, by means of which he may verify the genuineness of every note which he may happen to receive in the course of his transactions with the public. But even if there were such tests, and if he exercised the greatest possible care, in their application, they would not suffice to protect him from losses, arising out of the unexpected insolvency of some of the banks of issue. In order to guard efficiently against risk of this description, he would require an accurate acquaintance with the actual position and stability of every bank whose paper may at any time come into his possession; and in the case of nearly every private bank, this knowlege is obviously unattainable. In the absence of this desideratum, his only means of protection appear to consist in the prompt presentment or exchange of every description of paper, on the perfect security of which he does not possess some valid reasons for reliance.

It must, we think, be conceded, that under the present point of view, the state of the English paper issues is liable to very grave objections. In Ireland, where the number of issuing banks is only eight, all of which are public banks, the cases of forgery are comparatively few, and a very high degree of confidence in the currency, is entertained by the public generally. Even in Ireland, however, that confidence is not so implicit or so universal as it would unquestionably be, if there were only one description of paper. A similar observation, though with some qualification, may be applied to the issues of the banks in Scotland. But in England, where, as has been said, the number of issuing banks amounts to about 250, and where at least 150 of

these are private banks, it is obviously impossible that adequate safeguards can be provided against either the occasional dissemination of fictitious paper, or the not unfrequent infliction of severe pecuniary losses, through the failure of some of the banks of issue. We are fully aware of the high reputation which a vast majority of the country banks in England deservedly bear, both for stability and integrity; but the failure of several issuing and non-issuing banks, *since* the passing of the Act as well as previously, suffices to prove that this high character cannot be predicated of all of them indiscriminately. And when a single bank of issue fails to meet its liabilities, it always tends to throw a partial discredit over the whole paper circulation of the kingdom.

Whatever may be the other qualities desirable in a paper currency, it appears to us to be almost axiomatic, that it should, if possible, be rendered as secure as a currency purely metallic—as stable as the Government itself. But this we contend can never be accomplished, so long as the privilege of issue is conceded to any very considerable number of separate banking companies. The evils requiring to be guarded against, have been shown to be two-fold; the circulation of counterfeit notes, and the insolvency of some of the banks of issue. The former of these, in such a case, appears to admit of no infallible means of prevention; the latter can only be provided for by the State's becoming the guarantee of all the paper money in the hands of the public. But this is a course which few, even of the most sanguine advocates of a plurality of issuers, would be bold enough to recommend. The amount of evil which it would generate, through acting as a bonus upon every species of mismanagement would be far greater than any which it could remove. But the principle itself, involved in the adoption, would

be altogether inadmissible. It assuredly forms no part of the functions of Government to guarantee the solvency of an indefinite number of banking companies. At the same time, we consider it no less demonstrable, that the Government has not the right to authorize the issue of notes, without fully guaranteeing their payment in cases of insolvency.

But if the issue of notes should be a function of the State, it is equally evident that the profits derived from such issue should be appropriated to the service of the nation generally. We do not contend that the Government of the country, whatever may be the mode of its formation, has the right to interfere with any legitimate department of trade or manufacture; nor do we propose that banking should be considered an exception to the general rule. But the issue of unrepresented paper money is, in its nature, essentially distinct from the ordinary operations of banking. The banker, in common with the merchant or manufacturer, derives his profits from the reproductive employment of his own capital, together with as much of the capital of his customers, as he can induce them to entrust to his care. But unrepresented paper money is not capital, and is no more the property of the banker or his customers, than it is of the merchant and manufacturer, or their respective customers. In effect however it is equivalent to capital, and its employment is equally profitable; any transfer, therefore, of the profits arising out of its issue to a number of private individuals, is not only an act of injustice to all the rest of the community, but is a real source of injury to every banker or dealer in money, who is excluded from the enjoyment of the privilege. For it is clearly impossible for one who is limited to the employment of his capital and credit, to compete on equal terms with rivals who are thus authorized to operate, not only

on their capital and credit combined, but also on a species of fictitious capital, which they are permitted to create at pleasure. And the only mode in which this injury can be successfully averted, is by securing the profits arising out of the privilege of issue to the general body of the community at large.

In this respect, as in the preceding, the English monetary system presents the spectacle of a very wide departure from principle. For not only are the profits derivable from the issue of paper money, almost entirely appropriated by private individuals, but that appropriation has been made upon a most capricious method of selection. The case of the Bank of England is indeed a partial exception to this statement. It must not be overlooked, that, as the Government bank, it has always rendered considerable service to the State, in return for the privilege of trading upon £14,000,000 of fictitious capital. This service is twofold. In the first place, it has permanently lent the Government £11,000,000 of its capital at 3 per cent. As this, however, is the usual rate of interest paid by Government on its loans, the value of the accommodation conferred by this advance, especially when the security of the investment is taken into account, must not be estimated as extremely high. But secondly, the Bank transacts the banking business of the State, including that of the National Debt, and for this service it may, perhaps, be thought that the £70,000 per annum now allowed by Government, is an insufficient recompense. According to the arrangement made in 1808 the Bank was to receive £340 per million, on the first £600,000,000 of the debt, and £300 per million on the remainder; or in all about £250,000. This was obviously so exorbitant an allowance for the service rendered, that at each of the recent renewals of the charter,

the Government have stipulated for a deduction; and in 1844 the abatement mutually agreed on was £180,000. If this deduction should be considered too great, it must be borne in mind, that as the Bank pays no interest on the Government deposits, and as they frequently amount to several millions sterling, the profit which it realizes from their loan, forms no insignificant item to be added to the £70,000.* It is also deserving of mention, that by an improved system of accounts, introduced into the Bank some few years since, the expense and trouble entailed by the management of this department, have been reduced to about one half; so that it is not altogether impossible that the £70,000, together with the employment of the deposits, may amount to an equitable recompense for the present value of the service. But whether this be so or not, it is undeniable that neither in this respect, nor in the preceding, nor yet in the two combined, does the Government receive an adequate equivalent for the privilege of issuing £14,000,000 of notes unrepresented by bullion. For a very slight calculation will suffice to show, that those £14,000,000, if advanced in loans or under discount, at the rate of 4 per cent., which is about the average, would return a profit of more than half a million annually; and although the Bank can never retain the whole of those notes in circulation, yet this produces no essential difference in the result, as the notes held in reserve are well known to be just as profitable in increasing the efficiency of the deposits, as if they had formed a part of the circulation itself.

The case of the country banks of issue is very different from that of the Bank of England. The only equivalent which they render in return for the privilege of issue, so

* The interest occasionally paid to the Bank for its advances on Deficiency Bills is too trifling in amount to require a reference to it in the text.

far at least as we are aware, consists in the payment of stamp duty, and composition in lieu thereof; and the total amount derived from those imposts is less than £40,000 per annum. Now, the employment of the £8,000,000 of country notes, in loans and under discount, at the rate just assigned, would return an annual profit of more than £300 000; and for this amount of profit the payment of £40,000 in stamp duty, must be considered a very inadequate compensation. In like manner, if we extend our view so as to embrace the total authorized issues of unrepresented notes throughout the United Kingdom, it will be seen that while the profits arising out of those issues (which are more than £30,000,000) cannot fall short of one million sterling, the principal equivalent rendered by the banks of issue in the aggregate, consists of the two services just mentioned as performed by the Bank of England, and two similar services performed by the Bank of Ireland; the vast majority of those banks receiving the full benefit of the right of issue, with the exception of a trivial per-centage upon the annual profits. In this respect therefore, as in the preceding, it is abundantly evident that our present monetary system is very much in need of a comprehensive amendment.

There are several methods which might be adopted for rendering the issue of unrepresented notes more decidedly profitable to the State. One of these will readily suggest itself it is that of allowing all the existing banks of issue to retain their privilege on condition of paying Government a certain equitable rate of interest on the amount of notes which they should hold in circulation. This plan would undoubtedly possess the single advantage of producing as small a dislocation in the movements of the commercial machinery of the country generally, as is perhaps consistent with the introduction of any important

alteration. In nearly every other respect, however, it would be equally objectionable with the present system. It would furnish no additional guarantee either for the security of the genuine country notes, or against the circulation of counterfeit notes; and these are defects which would alone be sufficient to condemn any system in which they were not satisfactorily provided for.

But there is another principle, not hitherto propounded, to which such a system, as well as that at present in existence, would be just as forcibly opposed as to those which have already been advanced. For if it is clearly demonstrable, that the issue of paper money should be a function of the State, and should be exercised exclusively with a view to public interests, it is no less rigidly deducible from the best established data of monetary science, and no less agreeable to the spontaneous conclusions of common sense, that there should only be a single bank of issue. If no other reason for this could be adduced, save that already intimated, viz. that the existence of various descriptions of paper money has the direct tendency to lead to forgeries, this consideration alone would have sufficient weight to prove our proposition. But indeed its truth has long been fully proved on other grounds. It is a well known fact, that in the course of trade there are certain periods when it is desirable that the currency should expand to meet unusual requirements, and certain other periods when it should contract, in order to prevent undue speculation. The former case in general presents but little difficulty. At such times the rate of interest is usually high; and as it is for the pecuniary advantage of the banks of issue to enlarge their circulation as much as possible, the desire to increase their profits will induce them to extend their issues to the highest limits. In this case,

therefore, the operation of a plurality of issuing banks may not be injurious. But in the opposite circumstances, when it is expedient that the circulation should contract, the effect is precisely the reverse. During such periods the rate of interest is generally low, and the profits made by the banks proportionally small; so that it is only by retaining as large a number of notes as they possibly can in circulation, that the banks of issue can obtain their ordinary amount of profits. Whenever a contingency of this sort arises, the momentary advantage of the banks of issue, and the permanent interests of the community at large, are brought into direct collision. For should some of the issuing banks postpone their own advantage to that of the public, and contract their issues, there will always be found some other banks, which, instead of following their example, will embrace so favourable an opportunity of enlarging their transactions at the expense of their more conscientious rivals, and fill up the vacancy by an increased issue of their own notes. And the ultimate effect of this course, is to compel the former, in self defence, to again expand their issues in order to retain their customers, who would otherwise transfer their accounts to the bank which would make the largest advances at the lowest rate of interest. Thus the existence of a plurality of issuers has the inevitable tendency to throw obstacles in the way of a contraction of the currency, at periods when the peculiar circumstances of the country, may render such contraction a measure absolutely necessary for the public welfare.

In applying this principle to the case of the existing system, it will be seen that the limitation of the country issues to little more than one half the authorized unrepresented issues of the Bank of England, has greatly minimized the evils that would otherwise result from the existence of so great a multitude of issuers. At the same time, by throwing the whole responsibility of the management of the circulation upon the Bank of England, it has practically conferred a very undue advantage on the country banks. And on the other hand, it has confessedly provided no machinery for producing a uniform contraction of the issues, when desirable, in any districts, save the metropolitan, and those where only Bank of England notes circulate. In every other part of England and Wales, it lies completely within the power of some one or two of the local banks to prevent the circulation from contracting, no matter how essential may be such contraction to the general prosperity of the district.

The natural inference to which the preceding data directly lead, is, that either a State Bank should be formed for the issue of treasury notes, or that the privilege of issue should be exclusively confined to some one of the existing banks of issue. It may easily be shown that no insuperable obstacles exist to prevent the establishment of a State Bank. The only practical difficulty would arise out of the necessity of paying off the eleven millions due to the Bank of England; and this could readily be effected either by a direct sale of the debt, or by the contraction of a new loan for the same amount, neither of which operations need entail any considerable expense, present or prospective. The management of the issues would demand no greater degree of care than those of the Bank of England. A sufficient portion of the notes issued might be retained for the payment of the dividends, and for making any other necessary disbursements on account of Government; and the remainder might be loaned at their market value to such banks as might have valid securities to offer in exchange; but no advances should be made to private

individuals, or in any way that would interfere with the ordinary business of the banks of deposit and discount. The amount of profit that would be derived from the notes advanced to the banks, would necessarily depend on both the number of the notes and the rate at which they were loaned; but there can be little doubt, that if the present issues of England and Wales were entirely replaced, the nett profit would not be less than half a million sterling.

To this plan, however, there is one cardinal objection, at least at the present, and perhaps for many years to come; such a bank would necessarily be directly or indirectly subject to the control of whatever Government might happen to possess the seals of office. And although it is to be hoped that no Ministry which is ever likely to be entrusted with the executive in the United Kingdom, would so far descend from the dignity of their high position, as to tamper with the integrity of the monetary system of the country for any unworthy purpose, whether party or personal, yet it is not so certain that in the heat of parliamentary conflict, such tampering might not be ascribed to the Government of the day; and even the suspicion of any misdirection could not fail to be prejudicial to that feeling of public confidence which is so essential to the well-being of every paper currency. In these circumstances, therefore, it seems preferable that the issue of paper money should be preserved entirely free from any possible entanglement with the strife of party politics.

There remains, then, as the only alternative, the selection of some one of the existing banks as the exclusive depository of the privilege of issue. The qualifications required by such a bank, are the possession of a capital sufficiently large to form the basis of at least the present paper issues of England and Wales, together with a long experience of business transactions, on a scale proportionally extensive. Now both of these requisites are combined in the Bank of England. Its commercial experience has been greater than that of any other bank in the world. Its capital and rest united, amount to about £18,000,000, and although £14,000,000 of this are permanently invested in the loan to Government and other public securities, and are not therefore available for banking purposes, yet the knowledge that they can be relied on in the case of any possible disaster, has the same effect in inspiring confidence, as if they formed a part of the working capital of the Bank. Now, although the total authorized issue of unrepresented notes in England and Wales amounts to £22,000,000, yet the total average circulation of such notes is only about £15,000,000; and according to the judgment of the best practical authorities, the portion of the united capital and rest, which is not permanently invested, would form a perfectly adequate basis for an average unrepresented circulation of £15,000,000. And if the £3,000,000 that are now permanently invested in public securities, distinct from the Government debt, were set at liberty and employed as working capital, it is equally well established, that the £7,000,000 of which that working capital would then consist, upheld as they would still be, in public confidence, by the £11,000,000 lent to Government, would be quite sufficient as a basis for a circulation of unrepresented notes, to the extent of from £20,000,000 to £30,000,000.

And this brings us to the enquiry, whether the present note circulation of England is as extensive as would be consistent with the stability of our monetary system. It is generally well understood that it is for the advan-

tage of the nation that the unrepresented paper issues should be carried as far as is compatible with their perfect convertibility and security. Every note issued in lieu of gold is obviously equivalent to the creation of so much additional capital; for as it withdraws a gold coin from circulation it enables that coin to become capital, while the note itself discharges the functions of a medium of exchange as efficiently as the coin for which it has been substituted. And from this it clearly follows that unrepresented notes should be issued for every gold coin in the country, with the exception of what is actually required for securing the convertibility of those notes. Whether this point has or has not been reached in the case of the English issues, will depend on the proportion that subsists between the total extent of the gold currency and the amount required as a domestic and foreign reserve. For making this comparison we have no precise data that can be relied on for perfect accuracy, but we can make a rough approximation that will answer our purpose sufficiently well. According to the computation communicated by a late Governor of the Bank of England to the Committee of the House of Commons on Commercial Distress, and which received the sanction of his official approbation, the gold currency of England and Wales may be estimated at from £40,000,000 to £60,000,000, and the silver at £7,000,000 or £8,000,000. It may be observed, that there does not seem to be any excess of silver, as the difficulty of procuring a sufficient quantity for the payment of wages in most of the large towns, is at particular seasons very considerable. On the other hand, the extent of the gold currency, at first sight, appears immoderately great. Assuming £50,000,000, or the medium estimate, to be correct, the metallic currency would

be more than three times the amount of the average circulation of unrepresented notes; or even taking £40,000,000 as the more reliable computation, the proportion would still be very nearly threefold. Or to present the same idea in different words, an average circulation of £15,000,000 of unrepresented notes, is a very small proportion of a total average currency of £55,000,000.

But a closer analysis will bring us to the same conclusion. There are only three purposes for which a metallic currency is absolutely requisite—the payment of small amounts, the discharge of foreign liabilities, and the protection of the convertibility of the paper issues. The first of these is provided for by the silver and copper coin in the hands of the public. The second item is the more important of the remaining two. For the foreign reserve must clearly contain as much gold as is ever likely to be withdrawn from the country in one continuous drain. This has been estimated by Mr. Tooke, a very eminent practical authority, as about £12,000,000; but we think he must have overlooked the possible concurrence of a failure in some staple article of food, with the maintenance of a very heavy military expenditure abroad. Should such a combination ever arise, it would not be impossible that the drain might even exceed the limit of £12,000,000. It is more prudent therefore to err on the safe side, and assign £20,000,000 as the reserve to be maintained for such a contingency. But when these £20,000,000 have been set apart as a foreign reserve, there still remain at least a second £20,000,000 in the hands of the public; and the question arises, what proportion of these £20,000,000 is really required for securing the convertibility of the paper issues. To this enquiry the answer given by eminent bankers is, that £5,000,000 in gold would be more than sufficient to act as a basis for the present

average circulation of £15,000,000, and that if that average were increased to £30,000,000, a gold basis of £10,000,000 would still be sufficient to secure the convertibility of the whole. And in confirmation of the truth of this view, the cases of Ireland and Scotland may be referred to, as in both, the paper circulation is considered to exceed the gold currency in about a threefold ratio. When this domestic reserve of £10,000,000, therefore, is added to the foreign reserve of £20,000,000 there still remain at least £10,000,000 of gold that serve no necessary purpose as currency, and which it would be profitable to replace by paper.

It cannot be denied, however, that there are obstacles which forbid the immediate issue of unrepresented paper money to the extent of these £10,000,0000. The average unrepresented circulation of the Bank of England is at present only about £8,000,000; and if the bank be likewise entrusted with the issue of paper in lieu of the country circulation, which forms an average of about £7,000,000 more, this would very nearly double its average circulation of unrepresented notes. Now, although, as has just been shown, the £4,000,000 of capital and rest, which are not permanently invested in the loan to government or otherwise, and which therefore form the actual working capital of the Bank, are amply sufficient to act as a basis for securing the convertibility of these £15,000,000; and although the conversion into working capital of the £3,000,000 at present permanently invested in public securities distinct from the government loan, should enable the Bank with perfect security to increase its unrepresented circulation by another £10,000,000, yet, it could hardly be regarded as a prudent course to allow the Bank to extend that circulation in more than a two-

fold ratio without some gradual preparation for so great a change. It seems a preferable plan therefore that the Bank should try the experiment of replacing the country issues without any other important increase of its unrepresented circulation for ten or twenty years to come; and there can be little doubt, that after so much experience in managing the enlarged issues, it might safely be entrusted with a still further extension. Meanwhile we think it very desirable that the £3,000,000 invested in public securities, should be withdrawn from the bullion department and incorporated in the working capital. But in this we anticipate.

The circulation of unrepresented notes being thus disposed of, there remains for consideration the expediency of an increase in the amount of bullion notes issued by the Bank. And here, as in the case of the unrepresented notes, it is generally well understood, that it is profitable for the nation that the bullion notes should be extended as widely as possible. There are two points of difference however in the two cases. For every unrepresented note that can prudently be issued, there is a clear addition of an equal amount to the productive capital of the nation; while for every note issued on bullion, there is no other saving than the wear and tear of the metal that is lodged in the coffers of the Bank. But, on the other hand, while unrepresented notes cannot prudently be issued so far as to infringe upon the metallic reserve required for foreign and domestic purposes, there is no such limit to the prudent issue of bullion notes; but the Bank may with perfect security continue to issue notes on gold so long as the gold is presented, even though the amount so presented should comprise every sovereign that is now in the hands of the public. And the reason for this is sufficiently obvious.

For if every bullion note that is issued, increases the liabilities of the Bank it likewise increases the assets available for meeting those liabilities, and if £10,000,000 of bullion are sufficient to meet a demand for the payment of £10,000,000 of notes, £40,000,000 of bullion would be equally competent to discharge £40,000,000 of notes. And if we include the £15,000,000 of unrepresented notes amongst the liabilities, it will be seen at once, that if the possession of £10,000,000 of bullion would inspire confidence in the £25,000,000 of bullion notes and unrepresented notes combined, there can be no doubt that the possession of £40,000,000 of bullion would impart a still higher confidence in a total circulation, consisting of £55,000,000 of both descriptions of notes combined. So that from this point of view, it clearly follows that every increase of the bullion notes must necessarily increase the public confidence in, and therefore the security of, the unrepresented issues.

We have just seen that the amount of gold employed in the currency, cannot be estimated under £40,000,000. Now the average portion of this gold which is retained in the Bank, and on which bullion notes are issued, is not more than from £12,000,000 to £14,000,000. It would follow therefore from the preceding, that this might safely and profitably be increased to £20,000,000, £30,000,000, or even £40,000,000. The possibility of effecting such an increase, however, does not depend immediately upon the Bank of England, but upon the public generally, as the Bank can only issue bullion notes on the amount of gold that is presented in exchange for such notes. But it may well be doubted whether any permanent increase can be effected so long as the Bank is prohibited from issuing notes of a smaller denomination than five pounds sterling. The principal reason why so

large an amount of treasure remains in the hands of the public, consists in the fact that all small payments, including wages, varying from twenty shillings to five pounds, must be made in gold, and that as a necessary consequence, a very large proportion of the money that is held in the possession of the working classes cannot possibly consist of any other medium. Any considerable increase of bullion notes, therefore, would require that that increase should be effected by means of paper of a smaller denomination than five pounds. And accordingly we deem it a matter of high expediency that the legal restriction upon such issues should be at once removed.

We are fully aware that some eminent public men in England have long been, and perhaps still are, averse to the issue of small notes; but we cannot discover much force in the reasons which they advance for justifying their apprehensions. It is not unfrequently assumed, for instance, that the issue of such notes would necessarily lead to a great increase of forgeries; as they would be likely to pass into the hands of persons who could not have much experience in the detection of counterfeit paper. This objection owes its whole force to the defectiveness of the present system. If all the present banks of issue were allowed to issue small notes there can be little doubt that such permission would lead to extensive forgeries, as the numberless descriptions of such notes that would be in circulation, would be quite sufficient to baffle the discernment of even the most experienced persons. But if the privilege of issue were withdrawn from all its present possessors except the Bank of England, and if the latter were allowed to issue small notes, which would in that case be the only small notes that could ever become disseminated amongst the public, there is not the slightest reason to suppose that this would have any other

effect than that of reducing the attempts at forgery to the very smallest minimum. It has likewise been objected, that, inasmuch as such notes would come into the possession of a lower class of persons than those who can ever now receive paper money, a class liable to be seized by panic in times of pressure, the effect would probably be to increase the dangers of the Bank in periods of difficulty. Whatever influence this consideration may have in respect to an increased issue of unrepresented notes, it is altogether void of weight as opposed to the extension of bullion notes. For as we have already seen, an increase of bullion notes implies a corresponding increase of treasure in the Bank, for the payment of those notes, and the invariable effect of an increase of bullion is to augment the confidence of the public in the Bank's security. And even supposing the very improbable occurrence of a run upon the Bank to the full extent of the additional bullion notes that might have been sent into circulation, the only injurious result that this could have, would be the reduction of the treasure in the custody of the Bank to the same amount as it originally held previously to making the extended issues. But lastly, it has also been advanced, that inasmuch as small notes could be directly employed in the payment of wages, any increase in their issue during periods of speculation would exercise an injurious influence in stimulating excessive production. Like the preceding, however, this objection is exclusively applicable to the unrepresented issues. For, as bullion notes are only the representatives of treasure that is actually retained in the coffers of the Bank, and which either consists of or is readily convertible into coin, those notes can exert no influence different from that of the coins themselves, and cannot therefore be held responsible for

contributing in any degree to the extension of undue speculation.

It may perhaps be retorted, that if small notes were allowed to be issued, no practical distinction could be enforced between the unrepresented issues and the bullion notes, and that therefore the necessary effect of such permission would be to increase the former as well as the latter. But this objection would involve a total misconception, as the consideration of the present system will at once make apparent. For, so long as the unrepresented issues of the Bank of England are limited to £14,000,000, as under the Act of 1844, they cannot possibly exceed those £14,000,000, whatever may be the denomination of the notes so issued; and even though the restrictive clauses of the Act should be repealed, and the Bank should be allowed to replace the country issues, an arrangement can readily be devised, as we shall presently show, which would at once permit of an indiscriminate issue of notes of all denominations from one pound and upwards, and yet preclude the possibility of the unrepresented issues ever exceeding a safe and salutary maximum. If, however, it should still be apprehended that any danger would result from the complete abrogation of the prohibition of small notes, the expedient might be adopted of allowing a certain maximum issue of such notes for the next ten years, after which experiment, if the change proved beneficial, the restriction might be removed unconditionally. But for rendering such an experiment effectual a smaller issue than £5,000,000 to £10,000,000 would be of little service.

The preceding considerations have not tended to weaken, but rather to confirm the force of our conclusion, that it is now desirable that the whole paper issues of

England and Wales should be entrusted to the Bank of England, subject to the condition that the profits of such issue should be equitably participated between the public and the Bank. As has already been pointed out, the present banks of issue which would be deprived of their privilege would have no ground for complaint on the score of such deprivation, as they have long had reason to be aware that they owe their privilege entirely to the favour of the State, and that they are liable to have it withdrawn whenever it may be found inconsistent with public interests. There is one case indeed in which they might not unfairly consider themselves aggrieved, and that is, if the privilege were withdrawn so suddenly as to cause any serious depreciation in the value of their property. And in order to avoid such a result, it would certainly be expedient that sufficient time should be allowed them to contract their issues, and replace them by Bank of England notes, with the smallest disadvantage both to the public and themselves. For this purpose, a less period than ten years would scarcely be sufficient. But there are several modes in which the transition might be effected with very trifling dislocation. One of these would be extremely simple as well as feasible. The country banks might be permitted to issue their own notes for the next ten years on condition of contracting the amount of their authorized issues by one-tenth annually. An arrangement might at the same time be made which would induce the Bank of England to increase its issues in a corresponding proportion, so that the total amount of currency in the possession of the public need undergo no actual diminution; while both to the country banks and the Bank of England, the change from the present system would be so gradual as to produce no serious inconvenience to either. Should this plan be

adopted, and we know of no practical difficulty to oppose it, the authorized maximum of the country issues during the next ten years, together with the maximum profit derived therefrom, at an average rate of 4 per cent. would, in round numbers, diminish according to the following series :—

Years.	Issues.	Profits.
1856	£8,000,000	£320,000
1857	7,200,000	288,000
1858	6,400,000	256,000
1859	5,600,000	224,000
1860	4,800,000	192,000
1861	4,000,000	160,000
1862	3,200,000	128,000
1863	2,400,000	96,000
1864	1,600,000	64,000
1865	800,000	32,000
1866	000,000	00,000
		£1,760,000

thus allowing the country banks a total profit of £1,760,000, or nearly two millions out of the privilege of issue before their entire surrender of it. And this appears to us as liberal an arrangement as they could have any reason to expect.

We are now almost in a position to determine on what system the Bank of England should be expected to render an equivalent for the exclusive issue of paper money in England and Wales. Prior, however, to entering upon this consideration, it will be necessary to refer to another principle, which the present system infringes no less remarkably than those already instanced. With the exception of a very limited section of currency theorists, it is now universally admitted that a paper currency ought to be so regulated as to contract and expand in conformity with the requirements of commerce; that is

to say, to contract whenever trade is stationary and the supply of commodities in the market small, and to expand whenever trade becomes active and the supply of marketable commodities undergoes an increase. By the currency theorists it is still maintained that a paper currency ought to contract and expand exactly as a currency purely metallic would do in the like circumstances. But this is palpably equivalent to asserting, that whatever evils are inseparable from a metallic currency ought to be, not avoided, but perpetuated in a mixed currency. One of the chief defects of a purely metallic currency consists in the very circumstance that it does not contract and expand with the decrease and increase of marketable commodities requiring to be exchanged for each other, but that, on the contrary, through the operation of an influx or efflux of gold, it not unfrequently contracts or expands in a far greater proportion than the state of the markets would justify, thereby producing an excessive depreciation or appreciation in general prices; while sometimes it even expands when the state of the markets would require a contraction, and vice versa. And accordingly, this is the evil against which common sense would desire to contrive peculiar safeguards in a mixed currency. The present system however has most carefully perpetuated the evil. For in the case of every considerable efflux of gold, the circulation—that is the amount of circulating medium, paper and metallic, in the hands of the public—must contract not merely in the proportion required for correcting the unfavourable exchange, but in a much higher proportion; and in every case in which such a drain commences at a period when the Bank's reserve of unemployed notes is at or near the minimum, the circulating medium must actually contract to an extent precisely equal to the amount of coin exported.

Thus supposing the drain to commence when the reserve of notes is at the average of about £6,000,000, an exportation of £10,000,000 of gold would not only reduce this reserve to its lowest prudent minimum of about £3,000,000 but would also contract the amount of gold and bullion notes in the possession of the public by about £7,000,000; while, supposing the reserve to have been already at the minimum of £3,000,000, the exportation of the £10,000,000 of gold would fall entirely on the circulating medium which it would reduce in the proportion of nearly 15 per cent.* In addition, therefore, to the measures already proposed, the restrictive clause that limits the Bank of England to any inflexible maximum, must be repealed and the Bank must be allowed to issue unrepresented notes, not only to the extent at present authorized, viz. £14,000,000 together with an additional £8,000,000, as a substitute for the country issues, but also to any necessary amount in excess of those £22,000,000, subject however to certain conditions, required for preventing any possible over-issue beyond the actual wants of the public.

We shall now proceed to the consideration of those conditions. It has already been seen that the Bank of England should not be allowed to issue unrepresented notes without participating its profits with the State, from which it derives the privilege of issue. Now there are several methods in which this participation might be

* Assuming the given circulation in the hands of the public to be thus composed:

Gold, and bullion notes issued on gold, &c., ...	£50,000,000
Silver, ...	7,000,000
Bank of England unrepresented notes	11,000,000
Country notes	7,000,000
	£75,000,000

a drain of £10,000,000 of gold would obviously produce a contraction of more than 13 per cent.; while, if the silver be excluded from the computation, the amount of the reduction would be within a fraction of 15 per cent.

effected. For instance, a computation might be made of the probable amount of annual profit that would be derived from the privilege; and the Bank might be required to pay annually into the Treasury, whatever proportion of this profit might be considered equitable. This plan, however, is liable to the fatal objection, that it could hardly fail to operate as a bonus on excessive issue. For, as in this case, the profits of the Bank would rapidly increase in proportion to the greater number of notes that could be kept in circulation, the Directors would be exposed to the continual temptation of resorting to imprudent means for extending their issues. A single illustration will show the force of this. For, supposing that the proportion of the profits set apart for the State, should amount to the total profit arising out of the issue of say some £10,000,000 of notes, then all the profits derived from the issue of notes in excess of those £10,000,000 would go undivided into the coffers of the Bank, so that the Bank would be directly interested in extending the issues as much beyond the £10,000,000 as would be practicable. And the experience of the whole past history of the Bank has proved that such a system as this would be inconsistent with the highest interests of the commercial public. It has been proposed again by some eminent authorities, that the Bank should be allowed to supply the whole paper issues of the country on condition of lending some fifteen or twenty millions of its notes to the Government without interest, which would necessarily give the same pecuniary advantage to the State as if it issued an equal number of its own notes. But this plan would be liable to the same objection as the former. It would make the profits of the Bank depend directly on the amount of unrepresented notes retained in circulation; and under such circumstances the Bank could hardly fail at times to extend its issues beyond the limits which the condition of trade would render advantageous.

It may, therefore, we think, be laid down as an important practical rule, that the Bank should be required to render the equivalent on the principle of proportioning its payment to the amount of unrepresented notes in circulation, and that the rate imposed should increase as that circulation increased. The only difficulty appears to consist in devising a simple natural plan for accomplishing this result; a plan that would be readily comprehended by the public, and that would involve no very complicated system of calculations on the part of the Bank. Now, it so happens that this difficulty can be easily surmounted as will appear from the following explanation. The authorized circulation of unrepresented notes has already been shown to consist of two parts, viz. about £11,000,000 issued upon the Government debt, and £3,000,000 issued upon other public securities. Upon the £11,000,000 lent to Government the Bank receives interest at the rate of 3 per cent.; and there can be no question that this is not so great a profit as the Bank could obtain from those £11,000,000 if employed in ordinary banking operations It may fairly be considered therefore that the Bank is entitled to derive a higher share of profit out of those £11,000,000 than out of the other £3,000,000, which have not been lent to Government, and which, as pointed out above, the Bank should be set at liberty to withdraw from the issue department, and incorporate amongst the working capital. In like manner, when the Bank is allowed to increase its unrepresented issues, for the purpose of replacing the country notes, the additional notes so issued, as well as the £3,000,000 just mentioned, being so much

over and above the £11,000,000 lent to Government, and the Bank therefore rendering no actual service to the State in return for the privilege of issuing them, it would be perfectly legitimate that the State should require something like an equitable participation of the profits derivable from their issue. During the next ten years, under the operation of the plan proposed, these additional notes would increase annually, according as the country notes diminished, viz. as follows:—

1856	£ 000,000
1857	800,000
1858	1,600,000
1859	2,400,000
1860	3,200,000
1861	4,000,000
1862	4,800,000
1863	5,600,000
1864	6,400,000
1865	7,200,000
1866	8,000,000

so that at the expiration of the ten years the country issues would be entirely replaced, and we should have an authorized issue of £11,000,000 upon the Government debt, to be issued at a moderate charge, and a second £11,000,000, either issued or allowed to be issued at an equitable charge. These £22,000,000 are the maximum amount of unrepresented notes, which can be issued in any circumstances under the operation of the Act of 1844; they may therefore be assumed to constitute the present normal requirements of the country, and any issue of unrepresented notes in excess of these, might very fairly be charged with so high a rate as would render the recourse to them an extremely exceptional case, to be resorted to exclusively in periods of grave necessity.

This plan therefore would provide a gradation of three advancing rates of charges: a minimum rate upon the £11,000,000 of unrepresented notes, allowed to be issued in consideration of the loan to Government; a medium rate on the amount of notes required for completing the total normal issues of £22,000,000; and a maximum rate on whatever notes might at any time be required in excess of those £22,000,000.

Now to this plan of regulating the issues of the Bank of England we are altogether unable to foresee any valid objection, practical or theoretical. There are certainly very conclusive reasons why the Bank of England should be allowed to issue £11,000,000 of unrepresented notes on the £11,000,000 lent to Government at a lower rate than the second £11,000,000, for which otherwise the Bank would render no equivalent; and there are no less forcible considerations why the Bank should be charged a lower rate upon the second £11,000,000 which form a part of the normal requirements of the public, than upon the notes which might at any time be issued in excess of the total £22,000,000. Nor can there be any difficulty in the practical application of such a principle. For, if an account be kept from day to day, or from week to week, of the total number of notes, both represented and unrepresented, in actual circulation, and if the number of bullion notes in circulation be deducted from this gross amount, the remainder will be the total amount of unrepresented notes; and whatever may be the number of these, the first £11,000,000 will be charged with the minimum rate, the second £11,000,000 with the medium rate, and the remainder, if any such there be, will be subject to the maximum rate. Thus, supposing the gross circulation to consist of £30,000,000, and the bullion

notes to comprise £14,000,000 of these, the rates would be imposed as follows:

Issued on bullion, ...	£14,000,000
,, at the minimum rate, ...	11,000,000
,, at the medium rate, ...	5,000,000
	£30,000,000

or, supposing the gross circulation to be £40,000,000, the bullion notes remaining as before, there would be

Issued on bullion, ...	£14,000,000
,, at the minimum rate, ...	11,000,000
,, at the medium rate,...	11,000,000
,, at the maximum rate, ...	4,000,000
	£40,000,000

but this, as we shall see hereafter, is a case that would be very unlikely to occur under any ordinary circumstances.

During the operation of the ten years' arrangement with the country banks, the system would necessarily undergo a slight alteration with each successive year, and would not therefore be altogether so simple as the preceding; but it would present no very peculiar complexity. For, a reference to page 38 will show the number of notes which the Bank would be allowed to issue in addition to the £3,000,000 at the medium rate, together with the first £11,000,000 to be issued at the minimum rate; and if the Bank should at any time exceed the total of these three items, whatever notes might be issued in excess would be liable to the maximum rate. For example, in the year 1860 the number of notes allowed to be issued at the medium rate would be £3,200,000, added to £3,000,000, together £6,200,000; if, therefore, the gross circulation in that year should at any given time amount

to £33,000,000, the bullion notes being £14,000,000, the unrepresented notes would be charged in this way:

Issued on bullion, ...	£14,000,000
,, at the minimum rate,... ...	11,000,000
,, at the medium rate, ...	6,200,000
,, at the maximum rate,... ...	1,800,000
	£33,000,000

and if we include the country issues, so as to present a view of the total circulation of the country in such a case, we shall have

Issued on bullion, ...		£14,000,000
,, at the minimum rate,	£11,000,000	
,, at the medium rate, ...	6,200,000	
,, by the country banks, ...	4,800,000	
		22,000,000
,, at the maximum rate, ...		1,800,000
		£37,800,000

and in like manner in 1861 the number of notes allowed to be issued at the medium rate, would be £7,000,000; and so on until, in 1865, the medium rate would reach its permanent limit of £11,000,000. And, with this explanation, we shall hereafter confine ourselves exclusively to the permanent arrangement that would come into complete operation in 1866.

We are far from deeming it our function to determine on the exact rates which ought to be charged in these three cases, as this is a question of arrangement between the Government and the Directors of the Bank of England; nevertheless as without some estimate of this sort it would be difficult if not impossible to enter upon any close examination of the probable working of such a system, we shall now proceed to consider what rates would appear to us most equitable. And first, to take the minimum rate to be charged on the £11,000,000 of

notes issued on the loan to Government. On these £11,000,000, as has been more than once observed, the Bank receives 3 per cent. from Government in addition to the profit which it derives from operating on the notes issued in lieu thereof. Assuming therefore, as a not unreasonable rule, that the Bank and the State should share this extra 3 per cent. on equal terms, it would follow that 1½ per cent. to each would be a fair participation of the profits; and if we allow the Bank an additional ½ per cent. as a sort of equivalent for the expense and trouble required in the management of the issues, it will hardly admit of dispute that the remaining 1 per cent. will form an extremely moderate governmental charge on the first £11,000,000. The same principle will be no less applicable to the medium rate to be charged on the second £11,000,000. Whatever profit the Bank would derive from the circulation of these notes would be entirely owing to the privilege of issue delegated by the State; it would be equitable therefore that the Bank should share the whole of this profit in equal proportions with the Government. Now, as a general rule it would only be when increased banking accommodation would be required by the public, and when the rate of interest would be proportionally high, that the Bank would ever be likely to circulate any considerable proportion of these second £11,000,000; so that the gross profit derived from their issue would not be less than 4 to 6 per cent. On the principle just laid down, therefore, 2½ per cent. to each would be an equal participation of the profits; and if we again allow the Bank an additional ½ per cent. to cover the expense of management, the remaining 2 per cent. will certainly appear a very moderate governmental charge. There still remains the maximum rate, and that should be determined on a

totally different principle. The £22,000,000 already provided for constituting what we have called the extreme normal unrepresented circulation of the Bank, the rates imposed upon their issue should be such as would present no obstacle to the free expansion of the circulation to this extent, in conformity with the wants of trade. But any issue in excess of these £22,000,000 should be a very rare occurrence, to be justified only under urgent pressure; the rate to be imposed therefore should be such as would effectually prevent the circulation from ever exceeding its normal limits, except in cases of undoubted necessity, and for this purpose less than 4 per cent. could not be considered adequate. Indeed the Bank rate of interest so frequently rises higher than 4 per cent. that the imposition of any lower rate would present little barrier to the issue in excess of £22,000,000. The three rates therefore, the minimum, the medium, and the maximum, might very reasonably be fixed at 1, 2, and 4 per cent. respectively; in other words, the Bank should be authorized to issue the first £11,000,000 of its unrepresented notes at 1 per cent. the second £11,000,000 at 2 per cent. and any notes issued in excess of those £22,000,000 at 4 per cent.

There is one explanation, however, that must be made as to the method in which these rates should be imposed. We have said that the respective rates should be levied on the amount of notes that might be actually in the hands of the public. To this plan it may, perhaps, be objected, that inasmuch as a very considerable portion of the deposits in the Bank of England are well known to be as profitable to the Bank, and to operate as currency just as much as if they continued in the hands of the public; and that, as under our proposed system, the Bank will be enabled to re-loan their whole amount, and thereby derive

a two-fold profit upon a large proportion of the notes in actual circulation—that, therefore, consistency would require that the notes in deposit should be considered chargeable just the same as if they had never been deposited. Now, it must be conceded, that this objection is not altogether void of force; but there is an overruling consideration on the other side of the question. For it must not be forgotten that the Bank of England, in common with other banks, is necessarily a bank of deposit, and has its legitimate functions as such; a very considerable part of the profit, therefore, derived from the re-issue of the notes deposited, is exclusively the result of the constitutional exercise of its functions, and lies entirely beyond the sphere of Governmental jurisdiction. It might not, perhaps, be impossible to devise a test for distinguishing between these profits and those arising more directly out of the privilege of issue; but such a distinction would be far too minute to serve as a basis for legislation; and on the other hand, any indiscriminate charge upon the deposits, as a whole, would not only be extremely vexatious, but would even place the Bank of England at a serious disadvantage as compared with every other bank of deposit. It follows, therefore, that while the rule already laid down, of confining the operation of the rates to the actual amount of notes in the hands of the public, may not attain to absolute theoretical perfection, yet in practice it is clearly preferable to any regulation that would either discriminate between two classes of profits derived from the deposits, or impose the rates upon their total amount.

It will be seen from this, that while we are anxious to maintain in its integrity the right of the State to receive an equitable proportion of the profits derived from the issue of unrepresented notes, we have no desire to stretch this right so as to bear oppressively upon the interests

of the Bank of England. But a closer examination will conclusively show, that the effect of our proposed arrangement, as a whole, would be to leave the present profits of the Bank altogether intact, as the profits arising out of the additional notes which the Bank would be authorized to circulate, would amply cover the governmental charges on the total circulation. The simplest method of establishing this point, will be to compare the actual circulation of unrepresented notes under the Act of 1844 with the probable circulation under the proposed arrangement. And first, to take the average circulation as the standard of comparison. The present average circulation has been shown to be about £8,000,000, and the profits derived from these, at 4 per cent., would be £320,000 annually. Now, under our plan the average circulation would be at least £15,000,000, the gross profit upon which, at 4 per cent., would be £600,000 while the governmental charges would be

£11,000,000 at 1 per cent.	£110,000
4,000,000 at 2 per cent.	80,000
	£190,000

or a total of £190,000 which, deducted from £600,000, would leave a nett profit of £410,000, or considerably more than the present profit on the £8,000,000. A comparison of the maximum circulation of unrepresented notes, again, will fully establish the same conclusion. The present maximum can never exceed about £12,000,000 without imperilling the safety of the Bank; and these £12,000,000, if advanced at 8 per cent., to which the rate of discount under the Act of 1844 has sometimes advanced, would return a profit at the rate of £960,000 per annum. Under the proposed arrangement, on the other hand, the maximum would not improbably, in a case of extreme pressure, be £22,000,000, or even £24,000,000; and the gross profit on £24,000,000,

at the same rate, viz., 8 per cent., would be at the rate of £1,920,000 per annum. On these the governmental charges would be

£11,000,000	at 1 per cent., ...	£110,000.
11,000,000	at 2 per cent., ...	220,000.
2,000,000	at 4 per cent., ...	80,000.
£24,000,000		£410,000

which, deducted from £1,920,000, would leave £1,510,000 as compared with £960,000 under the present system. This, however, is an exaggerated estimate, as we shall presently show that the rate of interest would not be likely to exceed from 6 to 7 per cent. Taking 6 per cent., then, as the more probable rate, the gross profit on £24,000,000, advanced at 6 per cent., would be at the rate of £1,440,000 per annum; from which, if we deduct the governmental charge of £410,000, there will still remain £1,030,000 as compared with £960,000 under the present system. While one effect of our arrangement, therefore, would be to augment the national income by from £190,000 to £410,000 per annum; this advantage evidently would not be purchased by appropriating any portion of the present profits of the Bank of England.

Before proceeding any further with our inquiry, it will now be desirable to take a rapid survey of the ground already traversed. We found at starting, that according to one of the best established doctrines of monetary science, the issue of paper-money is essentially a function of the State, and should be exercised exclusively for the promotion of public interests. To the immediate establishment of a State bank of issue, however, there appeared to be one cogent practical objection, arising out of a political necessity which is very generally recognised, that the Government of the day should have no direct control over

the monetary system. In lieu of a State Bank, therefore, we were obliged to go in search of the best possible substitute; and guided by the well-grounded principle, that there should only be a single bank of issue, we arrived at the conclusion that, under existing circumstances, the safest and most consistent course would be to entrust the whole circulation of England and Wales to the Bank of England, on condition that the Bank should equitably share its profits with the public treasury. The general subject of the extent of the paper circulation next passed under review; and while it did not seem prudent that the unrepresented issues should at present undergo any considerable increase beyond the £22,000,000 which are now the statutable limit, it yet appeared very necessary that the absolute prohibition of any issue in excess of that limit should be removed, and that the Bank of England should be allowed to expand its unrepresented issues in conformity with the wants of trade, subject only to certain regulations required for their due adjustment. On the other hand, we found it manifestly desirable that the Bank should be encouraged freely to increase its issues on bullion, and that, in order to accomplish this, it should at once be permitted to issue at least from £5,000,000 to £10,000,000 of notes under five pounds sterling. Returning, then, to the country banks of issue, it was shown to be a matter of justice, that they should be granted sufficient time for the gradual withdrawal of their issues, and the substitution of Bank of England paper. We, therefore, proposed that they should contract their authorized circulation by one-tenth annually, for the next ten years, the Bank of England as gradually supplying the vacancy according as the notes should be withdrawn. We then proceeded to consider the mode in which the Bank of England should be required to share its profits

with the public, and found upon examination that the most advantageous plan would be that of imposing an annual rate on the amount of unrepresented notes retained in circulation, or, rather, a series of rates arranged upon an ascending principle, viz. — a minimum rate on the £11,000,000 of notes issued in consideration of the loan to Government; a medium rate on whatever notes might be required to increase the total unrepresented circulation of the country to £22,000,000 (the amount varying from £3,000,000 at present to £11,000,000 at the expiration of the ten years' arrangement with the country banks), and a maximum rate on whatever notes might at any time be issued in excess of the total £22,000,000. And, on further consideration, it appeared that 1, 2, and 4 per cent. would form a not unreasonable scale for the three respective charges.

In embracing so extensive a field as the preceding, in the compass of a single paper, we have necessarily omitted any reference to several important branches of the subject. The expediency of the separation of the banking from the issuing department in the Bank of England has been sometimes canvassed, but the best authorities are agreed in regarding the separation simply as a matter of account. Should the alterations we have suggested be adopted, some corresponding changes would be required in the weekly returns of the assets and liabilities of the Bank, but no peculiar difficulty would arise out of this necessity. Another and a more important feature in the present system, has sometimes been assailed, but as appears to us on very nugatory grounds. We refer to the provisions by which the Bank is required to purchase all the gold that may be presented, at £3 17s. 9d. per ounce, and to render gold for all the notes that may be tendered for payment, at £3 17s. 10½d. per ounce. As one of these provisions is absolutely requisite for securing the convertibility of the issues, and as the other is equally indispensible for preserving an adequate stock of bullion, we are not aware of any valid reason for objecting to either. We may also remark that it is now the opinion of some of the most influential bankers, and of Mr. Gurney amongst the rest, that the proportion of silver on which the Bank may issue bullion notes as compared with gold, might judiciously be increased to one-third. So far as we know, this appears a very judicious proposition; at the same time we think that the permission to issue small notes, if conceded, would in great measure remove the necessity for its adoption.

There now remains for consideration the probable effect of the measures we have proposed, in meeting and providing for those great commercial crises, which have hitherto invariably produced severe disasters, and the periodical recurrence of which, under the existing system, can be predicted with almost scientific certainty. We have indeed already in part anticipated this inquiry, but its pre-eminent importance to the pecuniary interests of the whole trading community, demands an ampler treatment at our hands. And if it should be found that the system we propose would not be calculated to alleviate the evils produced by such calamities, or if at least it cannot be shown that it would prevent their unnecessary aggravation, we shall be perfectly willing to abandon it as unworthy of adoption. For we fully unite with those who maintain that the merits of a system of currency are not to be tested by its operation during the ordinary course of trade, but by its adaptibility to those periods of convulsion when the machinery of commerce is subjected to the severest dislocations.

Now we think it will be generally admitted, that nearly every monetary crisis arises either out of some deficiency

or excess in the circulating medium, or else out of some circumstance that is intimately connected with such deficiency or excess. And if this be admitted, it will clearly follow that the principal object that ought to be kept in view in the regulation of a system of currency, is the prevention of any undue increase or diminution in the amount of the circulating medium, and the immediate restoration of a state of equilibrum, whenever the balance may have been, through whatever cause, disturbed. Unfortunately, however, it is the peculiarity of the present system, that whenever the money market is tending either to an excess or a deficiency, the inevitable effect of the Act of 1844 is to aggravate and not to neutralize the tendency. It may at first sight appear extraordinary, if not incredible, that the same system should at different periods produce results apparently so opposed to each other; but a little consideration will show that this is undoubtedly the fact. And we shall first take the case in which the tendency is towards an excess of circulating medium.

It is a well understood circumstance, that whenever any unusual stimulus is imparted to the work of production, and the export trade proceeds with more than ordinary activity, the necessary consequence is, that the exports exceed the imports, and that gold flows into the country from those nations which have purchased more largely of our commodities, than they have paid for in their own. Now, whether this gold is converted into coin, and is directly expended in the purchase of commodities or the payment of wages, or whether it is taken to the Bank of England and exchanged for paper, in either case it immediately increases the amount of circulating medium in the possession of the public; in the one case in the form of metal, in the other in the form of bullion notes. And

just in proportion as money becomes abundant, prices rise, and the rate of discount falls in a corresponding ratio. This in itself, although in some degree inevitable, is nevertheless a serious evil. But unfortunately, the tendency of the present currency system, instead of alleviating, is to aggravate it. For, as money becomes abundant with the commercial public, it simultaneously increases with those who usually deposit in the Bank of England, and they immediately enlarge the amount of their deposits. Now every addition to the deposits, is really an addition to the unemployed reserve of unrepresented notes in the Bank; in proportion, therefore, as money becomes abundant with the public, the Bank reserve increases; so that it very speedily exceeds the amount which the ordinary rules of sound banking would hold to be necessary for discharging the functions of a reserve. In such circumstances it becomes the immediate interest of the Bank to force the superabundant notes of the reserve again into circulation; and this it can only do by entering keenly into the competition of the loan and discount market, and by proffering advances on more advantageous terms than those allowed by other banks and capitalists. And as the superabundance of money must have already produced a considerable decline in the rate of interest, and a corresponding rise in the scale of general prices, and must have thereby given an impetus to the spirit of undue speculation, so this disastrous competition of the Bank of England for an extended share of business, must not only induce a still further depreciation in the one case and enhancement in the other, but must inevitably impart a very powerful incentive to the rapid progress of speculation.

We are not now dealing with mere surmises, but with well ascertained facts which every intelligent reader may

verify from his own experience. That the liberty to issue £14,000,000 of unrepresented notes free of charge, does actually induce the Bank of England, when money is abundant, to make advances at an injuriously low rate of discount is a matter of common observation. For a glaring illustration of this we need only refer to the year 1844, when, a few months after the passing of the Act, so ardent was the competition of the Bank Directors for an increased share of discounts, that they even forced accommodation on the public at $1\frac{3}{4}$ and 2 per cent. And that the effect of this course was extremely mischievous is now a matter of universal agreement. We have indeed the testimony of the Committee of the House of Lords on Commercial Distress—a testimony fully sustained by the witnesses examined before the Committees of both Houses —to the fact that the operation of this low rate of discount, in imparting an active stimulus to speculations of every kind, was to contribute in no small degree to the severity of the crisis in 1846-7. The mode in which it produces such a result is readily intelligible. It does so in two ways. In the first place, the rise of prices at home, unless it should happen by an extraordinary coincidence to be accompanied by a corresponding rise of prices in all the foreign countries with which we trade, must necessarily have the two-fold effect of putting a check to the export of our own commodities to the foreign markets, and of encouraging an increased importation from those foreign markets to our own. And in the second place, the decline in the rate of interest produces a proportionate rise in the price of public securities; and this rise in the price of securities, unless accompanied by a simultaneous enhancement in the price of foreign securities, has the two-fold effect of preventing foreign capitalists from purchasing our securities and of inducing our own

capitalists to sell out their securities at home and purchase in the foreign market. Now, the effect of both of these operations—the one on the relation between our imports and exports, and the other between domestic and foreign securities is to necessitate the transmission of the unfavourable balance in treasure to those foreign countries from which we have obtained the increased securities and imports. The ultimate result therefore of the low rate of interest is in both respects an exportation of gold, and this exportation of gold is so serious an evil that it becomes an essential object, in currency legislation, to adopt every possible precaution against any occurrence that might unnecessarily induce or aggravate it.

Now in this most important particular the superiority of our proposed measures over the present system must be at once apparent. It is unquestionable that the Bank of England could never have been induced to force its notes upon the money market, at so low a rate of interest as $1\frac{3}{4}$ and 2 per cent. if it had not been allowed the privilege of issuing, for the purpose of loans, at no expense to itself. If a certain rate of interest had been charged upon the issue of all its unrepresented notes, that rate would have sufficed to prevent its loaning or discounting on such terms. And, supposing $1\frac{3}{4}$ per cent. to be the lowest rate at which the Directors might consider it profitable to advance money to the public, when the notes were perfectly free of charge, it is only a legitimate conclusion, that if a certain rate should be imposed on the issue of the notes, they would then be restrained from making advances on lower terms than the sum of that rate, added to the $1\frac{3}{4}$ per cent. supposed to be the present minimum. Now, the rate we have proposed to be levied on the first £11,000,000 of the unrepresented issues, being 1 per cent., there is no probability, according to this principle, that they would

ever make loans on securities at a lower rate than $2\frac{3}{4}$, or discount lower than 3 per cent. In practise, indeed, it is not likely that they would ever descend so low as this, as it is highly improbable that the unrepresented issues would not at all times exceed £11,000,000, and, in that case, the imposition of the 2 per cent. upon the notes in excess of the first £11,000,000, would inevitably keep the rates of interest and discount about 1 per cent. higher than if the issues were ever to consist entirely of notes that would be subject to no higher charge than 1 per cent. On our plan, therefore, there appears no probability that the Bank rate of discount would ever fall, for any considerable period, below $3\frac{1}{2}$ to 4 per cent. And, if this be correct, then whatever evils are admitted to arise from the encouragement of undue speculation, and the ultimate aggravation of a drain of the precious metals, through the low rate of discount at times adopted by the Bank of England, it must be conceded that our scheme of currency possesses this one advantage in addition to those already described, that it would, in very great measure, provide an adequate safeguard against such aggravation.

So far with respect to the operation of the present system in augmenting the evils arising out of an excess of circulating medium, together with our provision for preventing that augmentation. We have still to justify our assertion that the present system also aggravates the evils arising out of a deficiency of circulating medium, and that our proposed system provides a remedy for this as well as the former evil. And here the subject will demand a greater degree of amplification. For a deficiency of circulating medium may arise out of several different causes, each of which will require a special consideration. To treat of them generally, in the first place,

they may be disposed of under two cases, the one proceeding from an actual drain of the precious metals, the other arising out of the hoarding of currency by merchants and bankers, through the dread of monetary pressure. In point of fact, these two cases are not always kept distinct; indeed the former is not unfrequently accompanied by the latter. But it will be more convenient to treat of them separately, and to dispose of the latter before proceeding with the former.

The principal instance of a domestic drain, that is of a scarcity of money produced by domestic hoarding, which has occurred in recent years, was that which took place in October, 1847. In this case, as is well known, there was no actual deficiency of currency in the country at the moment of pressure. There was no unfavourable exchange; on the contrary, gold was steadily returning after the drain of the previous twelve months. The apparent deficiency, therefore, as compared with the pressure of the preceding April, originated solely in the accumulation of currency by the merchants and bankers. And this accumulation is admitted to have been caused exclusively by the knowledge that the Bank of England was rapidly drawing towards the end of its resources, under the law that limits the unrepresented issues to £14,000,000; and the truth of this is clearly demonstrated by the fact, that the temporary suspension of the Act of 1844, at once removed the panic without requiring the issue of a single note beyond the statutable limitation. Now, we contend that our provision for allowing the Bank of England to issue unrepresented notes, beyond the £22,000,000 at present allowed to be issued by the whole united banks of England and Wales, subject to the charge of 4 per cent. would entirely preclude the possible recurrence of any similar panic. For it was not the rate of interest at

which the Bank had been discounting in the previous months that produced the alarm, but solely the knowledge that the reserve of unrepresented notes was nearly exhausted, and that the provisions of the Act prohibited the extension of that reserve, no matter what rate of interest might be offered by the public for increased accommodation. The certainty, therefore, that whenever the rate of interest should materially exceed 4 per cent. the Bank would be placed in a position to afford any further accommodation that might be required by the public, would effectually prevent the recurrence of any apprehension as to the possible exhaustion of the Bank's available resources.

We will now proceed to the case in which the deficiency of currency is produced by an actual drain of the precious metals. Such a drain may obviously arise from a variety of causes too numerous to specify. But there are three cases which are not only in themselves the most important, but which also serve as fair representatives of the remainder. These three are, first, a drain arising out of general high prices at home, originally produced by an excess of currency and great overtrading; secondly, the exportation of gold to pay for some staple article of food or manufacture, caused by the deficient supply of such article at home; and thirdly, the maintenance of a large military expenditure abroad during time of war. The first of these was the main cause of the crisis of 1825; the second was the chief, but not the exclusive, agent in producing the pressure of April, 1847; the third is now in operation, and should the war prove of long continuance, may possibly subject the present system to as severe a test as that of October, 1847, provided the Act should not in the mean time undergo amendment.

To take the case of a drain produced by over specula-

tion first. We have already seen that one operation of the present currency system is, either directly to produce a drain whenever money is redundant, or else materially to aggravate it if produced by other agencies. We have now to consider the effect of another part of the same system, which comes into operation when the drain has taken place, and money is deficient. It is a generally admitted principle, that in such a case as this, in which the drain has been occasioned by a low rate of interest and high prices, there is nothing but a rise in the rate of interest, and a fall in prices, that can remedy the evil and recover the exported treasure. But it by no means follows that prices must necessarily fall as much below, as they had previously risen above their average, or that the rate of interest must rise as much above, as it had previously fallen below its average; as, in this case, the evil produced would be fully equal to that which it was designed to cure. For it must be remembered that the exported treasure will, in its turn, produce an excess of currency in the countries which receive it; and that that excess will necessarily lead to a rise in prices and a fall in the rate of interest, precisely commensurate with the amount received. It will not be necessary, therefore, that prices should fall much below the average at home, in order to stimulate an increased export of commodities to those countries in which prices have risen; nor that the rate of interest should much exceed the average, in order to encourage the purchase of our securities on account of the same countries; both of which operations will have the effect of recovering the treasure. But secondly, there is no necessity for our regaining the gold as rapidly as we have previously parted with it; as the less violent is the reaction, the less severe are the concomitant evils. And thirdly, if indeed it should not

have taken the first place, it has been repeatedly proved to demonstration, that a rapid fall in prices, instead of stimulating exportation, has the inevitable effect of paralyzing industry, and thereby retarding the production of those very commodities of which a more than ordinary quantity is required. Now, in each of these respects, the effect of the present system is to aggravate the severity of the reaction in every case in which the reserve of unrepresented notes in the Bank of England, is not at the very highest point when the drain begins to operate. For, supposing the gold exported considerably to exceed the amount of this reserve, which is invariably the case in every extensive drain which commences while the reserve is either at or below its ordinary average, the amount of circulating medium in the hands of the public must contract, at least by the difference between the amount of the available reserve and that of the exported treasure. Now this contraction in itself would alone suffice to cause a serious fall in general prices, and could hardly fail to put a sensible check upon the operations of productive industry. But long before the contraction would have reached its climax, and indeed before the available reserve of the Bank would have been exhausted, the Bank would be compelled, in self defence, to raise the rate of discount so high as completely to arrest the demand for increased accommodation consequent on the drain. In addition, therefore, to the contraction in the amount of circulating medium operating directly upon prices, we have a rapid and excessive rise in the rate of interest, proceeding step by step with that contraction, till, ultimately, as the Bank reserve approaches to the verge of exhaustion, a state of general discredit arises; the hoarding of currency at once ensues, a still more ruinous decline in prices is the

consequence, and nothing but the suspension of the Act can avert the spread of universal panic.

But, secondly, a drain may be produced by the failure of some staple article of food or manufacture, and the consequent importation of an adequate substitute. The most calamitous case of this kind which has occurred in recent times, was the general failure of the potato crop in 1846, which necessitated the transmission of more than £8,000,000 of treasure in payment for bread-stuffs, chiefly to America. In this and similar cases the efflux of gold is not produced by any excess of circulating medium, with its attendant rise in prices and fall in the rate of interest; the recovery of the gold, therefore, should be effected with the smallest possible diminution of currency, reduction of prices, or enhancement of the rate of interest, and any unnecessary aggravation of either of these is a perfectly gratuitous evil. Yet here, as in the previous case, the provisions of the Act of 1844 require that the circulating medium should contract, at least by the difference between the amount of the available reserve and that of the exported gold. For example, should the drain commence when the available reserve should amount to only £4,000,000, which is about the average, and should it extend to six, eight, or even ten millions, the amount of the circulating medium must inevitably contract, at the very least by two, four, or six millions. And yet, there can be little doubt that in such a case as this, a contraction of one or two millions would be amply sufficient for the recovery of the treasure.

But the remaining case is still more glaring in its character. For, should the war be protracted for several years in succession, it will necessitate, not merely a single drain

of gold to the extent of some £8,000,000 or £10,000,000, but a continued series of annual drains, every one of which may extend to that amount. In this case, therefore, under the Act of 1844, the currency will be subjected either to one continuous strain throughout the whole duration of the war, or else to a succession of violent oscillations from deficiency to excess, and from excess to deficiency, according as the bullion imported exceeds that exported, as would probably be the case during the winter months; and as the bullion exported may exceed that imported, as would probably be the case during the summer months. Should the amount of bullion received during the winter be equal to the amount exported during the previous summer, we should then have an excess of currency with high prices, and a low rate of interest in every spring, followed by a deficiency of currency with low prices, and excessively high interest in every autumn, except so far as this rule might be interfered with in the case of those commodities, the supply of which would be diminished through the rupture of our commercial relations with the hostile country. But should the influx of gold during the winter, fall short of the previous efflux, the effect would be, that the currency would be subjected to a permanent deficiency; and we should only have to look forward to low prices and enormous interest throughout the whole continuance of the war, with the not improbable contingency of the spread of general panic at every period of unusual pressure. And to this it must be added, that should any serious deficiency in some staple article of domestic consumption occur in the meantime, requiring the importation of an adequate substitute from abroad, the additional efflux of treasure which this would necessitate, might not only lead to a suspension of cash payments by the Bank of England, but be the means of throwing the

whole commercial affairs of the nation into extreme, if not irreparable, disorder.

It is now admitted by the best authorities, both practical and theoretical, that what is really wanted in such cases as those just described, is the adoption of some system that would recover the exported treasure, with the smallest possible interference with the amount of circulating medium, and the general prices of commodities. It is likewise admitted that a rise in the rate of interest, accompanied by a very moderate contraction of the currency, would be quite sufficient to recover the exported treasure, without inflicting any serious injury on the commercial public. For example, Mr. J. S. Mill, who is perhaps the most eminent of living economists, in the chapter on the Regulation of the Currency, thus expresses himself: "In the first place, the gold might be brought back, not by a fall of prices, but by the much more rapid and convenient medium of a rise of the rate of interest, involving no fall of any prices except the prices of securities. Either English securities would be bought on account of foreigners, or foreign securities held in England, would be sent abroad for sale, both which operations took place largely during the mercantile difficulties of 1847, and not only checked the efflux of gold, but turned the tide and brought the metal back." And in confirmation of this statement, we have the evidence of Mr. Morris, late Governor of the Bank, before the Committee of the House of Commons on Commercial Distress, to the fact, that a rise in the rate of discount to 6 per cent. sufficed to recover the gold from Russia and other continental countries—"Parties were importing gold during the time that we were discounting at 6 and 7 per cent., but latterly, when gold became scarce, they exerted themselves still more to bring it." But the testimony of Mr. J.

Horsley Palmer, who has passed the Bank Chair, is still more decisive. He was asked, "May not a favourable exchange be maintained by the rate of interest being higher in this country than on the Continent?" His answer is emphatic: "It is the only mode, in my judgment, for correcting the foreign exchanges."

Now this is the precise mode in which our proposed system would operate in the case of every drain of bullion. The immediate effect of any drain, from whatever cause produced, would be, not a contraction of the circulating medium, but a gradual rise in the rate of interest. If the drain were not very great, this rise in the rate of interest would be sufficient to turn the exchanges in the manner described by Mr. J. S. Mill. If the drain were more severe, the rate of interest would rise still higher, till it would ultimately affect the public demand for loans and discounts, at which point it would begin to produce a very gradual contraction of the circulation. With this contraction would proceed a slight reduction in prices sufficient to stimulate an increased exportation, but not to paralyze domestic industry; and the united operation of the rise in the rate of interest and the moderate fall in prices, would recover the exported treasure, without involving any serious convulsion in the commercial system.

As this is a matter of more than ordinary importance, it will be best to enter somewhat more minutely into the mode of operation. We have already observed that the present average amount of bullion held by the Bank of England is about £14,000,000. Should the Bank, as we propose, be allowed to issue some £10,000,000 of small notes, the average amount of bullion would probably be thereby increased to about £24,000,000. We have also shown that the present average issue of unrepresented

notes by the Bank is about £8,000,000, and that if it were allowed to replace the country issues, the average would probably be thereby increased to £15,000,000. We shall now suppose that a drain of bullion commences when the amount both of the bullion and the unrepresented issues is at this estimated average. In such a case the total issues of the Bank of England would be thus composed:

Issued on bullion	£24,000,000
,, at 1 per cent.	11,000,000
,, at 2 per cent.	4,000,000
	£39,000,000

the Bank having still a reserve of £7,000,000 of unrepresented notes, which it might issue at 2 per cent. before the issues at 4 per cent. would be called into requisition. We shall also assume that the rate of interest is at its ordinary average of about 4 per cent. In these circumstances, then, we shall suppose that a drain originates from any of the preceding causes to the extent of say £4,000,000;* the effect will be as follows:—According as each million of bullion is withdrawn from the Bank, for exportation, the amount of bullion notes, and therefore of circulating medium in the possession of the public, will suffer a corresponding diminution: an increased demand for banking accommodation will therefore arise; but as this can only be accorded by the Bank of England, through a further extension of the issues at 2 per cent., and as

* In order to guard against misapprehension, it may be necessary to observe, that when speaking of the amount of any drain of bullion, we invariably mean the excess of the treasure exported over that imported during the given period. For example, should the efflux amount to £6,000,000 and the influx to only £2,000,000, the effect would be the same as if there had been an efflux of £4,000,000 and no simultaneous influx: we should, therefore, assign £4,000,000 and not £6,000,000, as the actual drain in such a case.

any considerable issue of such notes would require a higher rate of interest than 4 per cent. to render it adequately profitable, the effect of this increased demand for accommodation will probably be a rise in the rate of interest from 4 to 4½ or, perhaps, 5 per cent. It is possible that this rise in the rate of discount might not produce any effect upon the demand for accommodation, but the probability is, that it would have some sensible influence, though not very considerable. We shall estimate it, therefore, as likely to diminish the amount of the currency by £1,000,000 of the £4,000,000 exported. The total issues would then have undergone the following change :—

Issued on bullion	£20,000,000
,, at 1 per cent.	11,000,000
,, at 2 per cent.	7,000,000
	£38,000,000

and we should have a rise in the rate of interest to 4½ or perhaps 5 per cent., accompanied by a contraction in the total circulation to the extent of £1,000,000, as a means of correcting the exchanges, which there is little doubt it would suffice to do, if the drain were one of only slight severity.

The drain of 1847, however, was much more severe than this—and in order to show the operation in a somewhat analogous case, we shall suppose the efflux of bullion to proceed to the extent of a second £4,000,000. The effect would necessarily be very similar to that just described, except that it would be more strongly marked in its features. According as the demand for accommodation would increase, and as the Bank would approach the exhaustion of the £11,000,000 of unrepresented notes allowed to be issued at 2 per cent., it would be obliged to

raise the rate of discount still higher, so that, by the time that the efflux of the second £4,000,000 would be complete, the rate of discount would probably be not less than 5½ or 6 per cent., and as this rise would undoubtedly have considerable effect in checking the increased demand for accommodation, we may confidently assume the consequent contraction of the circulation to be at least one million of the four. The total issues therefore would have assumed this position :—

Issued on bullion	£16,000,000
,, at 1 per cent.	11,000,000
,, at 2 per cent.	10,000,000
	£37,000,000

exhibiting a rise in the rate of discount, from 4 to 5½ or 6 per cent., and a decrease of £2,000,000 in the amount of circulating medium, as the total effect produced by a drain of £8,000,000 of bullion. And should the drain proceed no further, we have ample data both in theory and practise, for assuming that this rise in the rate of interest would draw over foreign capital in the purchase of securities—that this contraction in the currency would lower prices sufficiently to stimulate the export of commodities, without paralyzing industry—and that through the combined operation of the two agencies, the bullion would be slowly but certainly recovered, with the smallest possible detriment to commercial interests.

The case of a drain arising out of military expenditure presents no peculiar feature of difficulty, as compared with the preceding. Should the loss of gold continue to the extent of another £4,000,000, making £12,000,000 altogether, the chief point of difference would be, that the exhaustion of the £11,000,000 of unrepresented notes allowed to be issued at 2 per cent., would necessitate a

recourse to the issues at 4 per cent.; and that this would require a proportionate rise in the rate of discount, in order to render such issue adequately profitable to the Bank. But a rise in the rate of discount to 6 or 6½ per cent., would allow the Bank a profit of 2 or 2½ per cent. out of such issue, over and above the governmental charge; we may, therefore, assume that such a rise would suffice as an inducement for the Bank to draw on those issues. And supposing that a rise to 6 or 6½ per cent. would produce a contraction in the demand for accommodation of a single million, as before, the total operation on the issues would be as follows:—

Issued on bullion	£12,000,000
,, at 1 per cent.	11,000,000
,, at 2 per cent.	11,000,000
,, at 4 per cent.	2,000,000
	£36,000,000

the efflux of £12,000,000 of bullion having raised the rate of interest from 4 to suppose 6 or 6½ per cent., and having reduced the total issues of bullion notes and unrepresented notes from £39,000,000 to £36,000,000; that is, by £3,000,000 out of £39,000,000. Now, in order to convey an adequate conception of the advantages derived from such a plan as this, we must contrast it more closely with the operation of the present system in a similar case. We will suppose, therefore, that a drain of £12,000,000 of bullion commences under the present system, at a time when the bullion notes and unrepresented notes of the Bank are both about their ordinary average, viz. £14,000,000 and £8,000,000 respectively, making a total of £22,000,000. Now, bearing in mind that the reserve of unrepresented notes can never practically be reduced below £2,000,000, it will be at once

apparent that a drain of £12,000,000 in such a case would produce the following change:—

Issued on gold	£2,000,000
,, on securities	12,000,000
	£14,000,000

thereby effecting a reduction in the total circulation of the Bank of £8,000,000 out of £22,000,000, while raising the rate of discount in some fabulous proportion in order to keep down the demand for accommodation, and at the same time placing in imminent jeopardy the convertibility of the issues, if not the solvency of the Bank.

We should not be doing justice to our proposed system if we did not subject it to a test still more severe than any of the preceding, and one which could not arise under the present currency laws without entailing upon the nation a very serious difficulty in meeting its engagements. We refer to the very possible contingency already alluded to, of our being obliged to discharge some heavy foreign liabilities through the failure of some important article of domestic consumption, or through any other cause, while already embarrassed by an excessive military outlay. The events of the past twelve months, indeed, have indubitably proved that it lies within the competency of a foreign country at any time, when the bullion is at a minimum, to buy up all the marketable English bills on the Continent at a trifling monetary sacrifice, and by transmitting them for discount, entail so sudden a demand for gold upon the Bank as may completely exhaust the treasure in the coffers of that establishment. Now, it can be readily shown that the provisions which we have proposed would altogether preclude the possible occurrence of such a calamity as this. For, supposing such an operation to be effected at a time when the bullion

had been already reduced, as just now supposed, to £12,000,000, and supposing £4,000,000 to be the highest probable limit of such a demand, the effect of this sudden drain of an additional £4,000,000 might possibly be to raise the rate of discount momentarily to perhaps 7 per cent., and might thereby produce a contraction in the actual circulation of £1,000,000 or £2,000,000, yet the result upon the issues could hardly be more violent than to reduce them as follows:—

Issued on bullion	£ 8,000,000
,, at 1 per cent	11,000,000
,, at 2 per cent.	11,000,000
,, at 4 per cent.	4,000,000
	£34,000,000

and as the bullion withdrawn by such an operation would be rapidly recovered, the additional pressure would be very soon relieved, and would pass over without entailing any abatement of confidence in the perfect security of the unrepresented issues.*

We have now contrasted the operation of the present and the proposed systems, in the cases in which there is

* We have not alluded in the text to the effect of our proposed system, in reducing the enormous fluctuations in the rate of discount produced by the operation of the Act of 1844; but this is a feature of the question too important to be altogether passed over without reference. In his examination before the Committee of the House of Lords on Commercial Distress, Mr. J. H. Palmer, a very competent authority, declared, that in his whole experience he had never known such vicissitudes in the rates of interest and discount as since the passing of the Act; and the greater number of the witnesses were unanimous in deploring the excessive injury inflicted on the community by those vicissitudes. Now, one essential part of the operation of the governmental charges of 1, 2, and 4 per cent. would be the reduction of those violent oscillations within more salutary limits; as we have just now seen that $3\frac{1}{2}$ to 4 per cent. would be the probable minimum, and 6 to 7 per cent. the probable maximum, at which the Bank of England would ever grant accommodation, and that moreover it would only be in extraordinary cases that the range of variation would exceed from 4 to 6 per cent.

an excess and in which there is a deficiency of circulating medium. But the contrast would not be complete if we did not consider a third case, somewhat intermediary to the other two; viz. that in which an occasional or only temporary expansion of the circulation is required by the domestic transactions of the country. The principal case in which this occurs, is at the payment of the dividends. At such times, whenever the reserve in the banking department happens to be small, through a low stock of bullion or through some degree of pressure, the effect of the restrictive clauses of the Act of 1844 is to render the payment of the dividends a matter of considerable difficulty, except at the expense of a serious temporary contraction in the amount of accommodation afforded to the public. In both the cases of April and October, 1847, already referred to, this was one of the circumstances which contributed to aggravate the pressure.* But other cases not unfrequently arise, in which advances are requisite for some temporary purpose, and which the Act of 1844 has rendered almost impracticable. A striking illustration of this occurred in the beginning of the year 1846, when Parliament required that all Railway companies which intended applying for an Act, should lodge 10 per cent. upon their capital, within fifteen days after the meeting of Parliament. It may well be doubted

* "About the same time the Government had occasion to borrow of the banking department about £3,500,000 to pay the April dividends. The banking department, consequently, for a while, limited their discounts; and even refused to grant loans on Exchequer bills. Great pressure was consequently felt, though it did not last for a long time. Now it is alleged that if the Act of 1844 had not existed, the Directors would have allowed the gold to be exported without *immediately* contracting the notes in circulation. They would have lent the money required by the Government, without refusing the loans and discounts to the public; and the contraction of the circulation, by being extended over one or two months, instead of a few weeks, might have produced no inconvenience."—*Practical Treatise on Banking*, by J. W. Gilbart, F.R.S. Fifth Edition. Page 129.

whether, if Government had been fully enlightened as regards the difficulty of performing such a condition, this measure would have been insisted on; but however that may be, it is indisputable that had the reserve in the banking department been small at that period, or had not the Bank lent out the notes as fast as they were received, the effect of the restrictive clauses of the Act of 1844 was such, that the lodgments could not possibly have been made at all; and even as it was, the difficulty of effecting them occasioned great anxiety in the public mind.* And similar cases may at any time arise, in which the operation of the Act must necessarily produce considerable inconvenience to the public.

Now very few words will suffice to show that our proposed system would be as well adapted to the exigencies of those occasional advances, as to the more normal requirements of the circulation. It must, we think, be conceded, that if an advance be made for some definite individual purpose, such as those referred to, the money so advanced will not continue any length of time in circulation, but will return into the Bank without producing a sensible effect on prices or on credit. But this being granted, it clearly follows that a system which is only intended to prevent such an over issue as would have the effect of raising prices, ought not to interfere with some indispensable advance which would necessarily be temporary, and would therefore exert no influence on prices.

* "Had the Act of 1844 not been in existence, the Bank of England (as in the case of the West India loan, and of previous loans) might have lent out the money before the time of payment arrived, and no apprehensions would have been entertained. The notes in circulation would have been largely increased for a few days, and then again have subsided to the former amount. As it was, the payment was not made through any virtue in the Act; and had it been required under different circumstances, or when the banking department had a smaller reserve, it could not have been made at all."—*Practical Treatise on Banking*, by J. W. Gilbart, F.R.S. Fifth Edition. Page 128.

Be that as it may, however, our system would be equally applicable to both cases. For, if the advance be really for a permanent purpose, its effect will be precisely similar to any other advance of equal extent; if considerable, it will raise the rate of interest and thereby diminish the amount of accommodation required in other quarters; so that the currency in the hands of the public will still be preserved at an expedient level. On the other hand, if the advance be made for some individual application, the governmental charge will only be imposed for the few days during which the money will be actually in circulation, and will therefore cause no sensible inconvenience to the Bank; while the necessary effect of its imposition, will be either to recover the money at the termination of that period, or else, by inducing the Bank to raise its rate of interest, to produce a contraction equivalent to the amount of expansion. In short, the operation of the proposed system, will be such that unless the amount of notes advanced in such circumstances be really required for the purpose of currency, they will not continue in circulation, but will inevitably return to the Bank at the earliest possible period.

It may be considered necessary that we should make a brief reference to some of the schemes that have been recently proposed, for the regulation of the currency. The only one of these that appears to have met with much attention, is that suggested by Mr. Glyn, in his examination before the Committee of the House of Lords on Commercial Distress. His proposal was, that the whole responsibility of the circulation should be left in the hands of the Bank of England, but that the Bank Court should include certain persons appointed under Act of Parliament, who should have, not an absolute veto upon the proceedings of the Court, but the right, when they dissented from

the majority, to submit the reasons for that dissent in writing, or even lay them before Parliament from time to time. To this he would not add any regulations with respect to the management of the currency, with a view to the exchanges, or to any other circumstances, but would leave that entirely to the determination of the Court and the Commissioners. As coming from a practical banker of such experience as Mr. Glyn, this proposal is certainly entitled to an attentive and respectful consideration. To us it appears, however, that several weighty objections oppose themselves to its adoption. To one of these we assign great practical influence, independently of all considerations of principle. We apprehend that the adoption of such a measure would almost inevitably establish very undesirable relations between the Bank and the Parliament or Government of the day. It is not to be assumed that Commissioners appointed by Act of Parliament, are necessarily more likely to be infallible than Directors selected by the proprietors of the Bank; but even if this were assumed as probable, it would not still follow that it would be at all expedient that such Commissioners should be invested with the power of becoming public accusers of the Directors, on any occasion in which the latter might not assent to their recommendations. The ultimate effect of such a measure could hardly fail to be, that the Commissioners, if men of large abilities, would come to be regarded in the light of dictators whose proposals the Directors would often shrink from negativing, through a natural aversion to have their proceedings investigated, and perhaps condemned, by Parliament.

But there are higher considerations than even this, on which we should mistrust the expediency of such a plan. It does not appear, so far as we recollect, whether Mr.

Glyn would repeal the provisions requiring the Bank to purchase all gold which may be presented at £3 17s. 9d. per ounce, and recur entirely to the measure of 1819; but we cannot see why, if the Bank Court are to have the sole responsibility of the amount of unrepresented notes to be held in circulation, they might not also be entrusted with the complete management of the issues on bullion, and, therefore, why the above provisions might not be altogether repealed. Now, whatever may be the defects of the Act of 1844, it is, we believe, disputed by few whose opinions are entitled to respect, that the operation of this part of the system has been in the main beneficial, and that on the whole the measure of 1844 has been a very great advance upon that of 1819. If, however, Mr. Glyn only contemplated the issue of unrepresented notes, when he recommended entrusting the whole responsibility to the Bank Court, there still appear very serious objections to his proposal, taken even with this limitation. Amongst others we may again repeat what we have already strenuously insisted on, that it is time that the Bank of England should render some better equivalent than at present for the privilege of issue. But independently of this consideration, we do not consider that the course which the Bank Court has adopted at various periods throughout the past half century, has been sufficiently judicious to justify our entrusting so unfettered a capacity for good or evil to its care, even though guided in its decisions by the advice of any number of Commissioners appointed under Act of Parliament. A very considerable discretionary power must undoubtedly be confided to the Bank Directors, but we cannot perceive that past experience would justify the extension of that discretion to the absolute control either of the unrepresented issues or of the rate of interest. Thus, while we

would place no absolute restriction upon the Bank, either with regard to the amount of its issues or to its rate of interest, we would certainly endeavour to devise such measures as would prevent the Bank, on the one hand, from exerting itself to keep too large an amount of unrepresented notes in circulation, and on the other, from loaning and discounting at too low a rate of interest, and thereby directly contributing to stimulate excessive speculation. And both of these objects we believe would be completely and judiciously effected through the adoption of the scale of charges already described; as the imposition of the minimum rate would necessarily prevent the rate of interest from falling too low in speculative periods, while the operation of the three ascending rates, as a whole, would produce a rise in the rate of interest directly proportionate to the efflux of gold and the increased demand for accommodation in times of pressure.

We are far from certain, however, that Mr. Glyn intended to express himself so forcibly against the adoption of any regulations, as the tenor of his language might appear to indicate. In several other parts of his evidence before the same Committee, we may very fairly refer to him in striking corroboration of our views. For, not only does he unite with us in reprobating the effect of the low rate of interest at which the Bank accommodates the public when money is abundant, in stimulating excessive speculation, and not only does he advocate the essential importance of maintaining a more equable rate of interest than has hitherto been the case, but he even expresses his entire approval of the plan of imposing a governmental charge upon the £3,000,000 of unrepresented notes which the Bank is allowed to issue on securities. "I am not aware of the terms upon which it is advanced to the Bank of England, but my idea was, that the additional three

millions ought not to have been advanced to the Bank of England by the issue department, except upon such a rate of interest as would have regulated the amount of notes out; that whenever money was worth only 3½ per cent. they should not have had the whole of that three millions issued; thus acting upon the circulation and lowering the value of money." Now, in this important passage is contained the most essential feature of the system we propose; the only difference of any moment consisting in this, that the principle which Mr. Glyn would apply to a certain portion of the circulation, we should desire to see extended, with the necessary modifications, to the total amount of the unrepresented issues.

We are strongly disposed to think that Mr. Glyn, Mr. Tooke, and several other leading opponents of the Act of 1844, have been carried too far in their objection to any system of regulations, through witnessing the mischievous effects of the inflexible restrictive clauses of that Act. So far as Mr. Tooke, however, is concerned, while shrinking from prescribing any absolute regulations on the subject of the currency, he has not omitted to offer some valuable suggestions as to the principles by which the Court of Directors should be guided in its management. He recommends that the average amount of bullion should be £12,000,000, the maximum being £18,000,000, and the minimum £6,000,000; and assuming 4 per cent. to be the average rate of interest, he supposes a drain to set in while the bullion is at its maximum. In such circumstances he would suffer the drain to reduce the gold to £12,000,000, and would then raise the rate of interest to 6 per cent., at which he would maintain it until the gold had fallen to £6,000,000, below which amount he does not consider it probable that the efflux would ever be likely to descend. In case it should exceed that point,

however, he would then allow the Bank to take measures for its own security, by restricting its discounts or otherwise; but as soon as the bullion again amounted to £6,000,000, he would recur to the rate of 6 per cent., and would adhere to the same until the treasure should again attain its maximum of £18,000,000.

If taken merely as a rough outline of the mode in which the Bank Directors should control their issues, we see little to object to in this plan of Mr Tooke's, but in its specific details it would hardly bear a close examination. Its principal defect, perhaps, regarded under this aspect, consists in its appearing to recommend a series of violent transitions. We can hardly think that its eminent proposer would suddenly raise the rate of interest from 4 to 6 per cent. at any particular stage in the efflux of bullion, or vice versa, or that he intended the preceding as other than an approximate statement of the mode in which the rate of interest ought to be raised in proportion as the drain proceeded. But apart from this consideration it seems somewhat inconsistent that, while he would strongly recommend the adoption of some such plan by the Directors, he would refrain from enacting any regulations that would have the tendency to ensure their practical adherence to it. Now, in this respect, we must, although reluctantly, dissent from the views of Mr. Tooke. We should not feel satisfied with merely advising the Bank Court as to the proper course to be pursued, and leaving the whole responsibility of so doing in their hands, but we would adopt such regulations as, while leaving them their own sphere of action sufficiently unfettered, would still impart a very sensible stimulus to their adoption of the proper course. For, while we admit that the Government has not the right to determine on the rate at which the Bank

of England should grant accommodation, we strenuously maintain that it has the right to impose an equitable rate of interest on the amount of unrepresented notes which it allows the Bank to issue, and that it has an equal right to adopt the ascending principle, as a means of inducing the Bank to adhere to a similar rule in making its advances to the public.

There is one conclusion, however, as we have already observed, on which a large majority of the highest authorities, scientific and practical, are fully agreed, viz., that the present system of currency is extremely defective, and ought to be amended in the ensuing session of Parliament. The restrictive clauses of the Act of 1844 are, we think, likely to be repealed whenever the subject is presented for reconsideration. But if the remedial measures are confined to the mere repeal of those provisions, there will be little practical difference between the new system and that established by the law of 1819. We must once more repeat, that neither experience nor sound principle would justify the placing so serious a responsibility as the unrestricted issue of notes unrepresented by bullion, under the uncontrolled direction of the Bank of England. And if this be admitted, the question at once presents itself, what is the nature of the control which the State ought to exercise over such issue. It must not consist of the simple limitation of the number of notes issued; for either that would be ineffectual, or would repeat the error of the Act of 1844. Nor must it consist of the legislative enactment of certain rates of interest at which the Bank should accommodate the public; for that would be an unwarrantable interference with the functions of the Bank. We know of no other legitimate course, therefore, save that already propounded, viz. the imposition of certain rates of

interest on the amount of notes which the State may authorize the Bank to issue, and which the latter would not issue unless it derived a profit from the transaction. The adoption of this course would not involve the assumption of any undue prerogatives on the part of the Government; for if the State consents to transfer the privilege of issuing paper money from itself to any banking company, it unquestionably possesses the right to require an adequate equivalent for the exercise of the privilege thus transferred. And if the principle be once admitted, that the State has the right to impose certain equitable rates of interest upon the unrepresented issues of the Bank of England, we think it follows indisputably, on grounds which we need not here repeat, that the mode in which those rates should be assigned, should be that of an ascending principle.

To proceed still further, we think it no less expedient that whenever our currency system shall undergo revision, that revision shall be made as complete as practicable. And if so, we do not see how the subject of the country banks of issue can escape consideration. The advantages of having a single bank of issue are now so generally admitted that the chief, if not the only difficulty which would be likely to obstruct the question would be that relating to the mode of protecting the country banks from any unnecessary loss arising from the deprivation of their privilege. And of several methods in which this might be accomplished, we think by far the best and simplest would be that of allowing the present banks of issue to retain the privilege for a certain equitable number of years, on the single condition of gradually diminishing their issues, on such a plan that they would altogether cease at the expiration of the stipulated period. The question of the number of years that should

be allowed is a matter of detail: but, for our part, we consider that ten would be amply sufficient for this purpose. The gradual substitution of Bank of England paper for the notes withdrawn would present no difficulty; as all that would be necessary is, that the Bank of England should be permitted to increase its normal issues on equitable conditions in proportion as the country notes diminished, until, at the expiration of the stipulated period, the former would have totally replaced the latter. We see no objection, therefore, either of principle or of practice, to any of the leading features of the plan we have just propounded: and so far as the minuter details are concerned, we think they might safely be entrusted to the care of any intelligent body of public men who would honestly endeavour to carry the principles themselves into execution.

THE END.

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